

ARROWHEAD PROPERTIES LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2007/032604/06)
JSE share code: AHA ISIN: ZAE000275491
JSE share code: AHB ISIN: ZAE000275509
(Granted REIT status with the JSE)
("Arrowhead" or "the Company")

PRE-CLOSE INVESTOR UPDATE

Shareholders are advised that Arrowhead will be hosting a pre-close update with investors today, 23 March 2021, at 14:00 to provide an update in respect of the 6 months ending 31 March 2021. Shareholders that wish to participate can do so by using the following link: https://teams.microsoft.com/l/meetup-join/19%3ameeting_Nzg0NjVmZDYtYzllNi00OTAzLTkzYmEtYzJmYmYtM2FhZjdm%40thread.v2/0?context=%7b%22Tid%22%3a%220b1d23d8-10d1-4093-8cb7-fd0bb32f81e1%22%2c%22Oid%22%3a%22ca8b471c-c5b7-42d9-a491-9ef291c58abe%22%7d

The pre-close investor update will cover the topics set out below.

During the period under review, Arrowhead continued to deliver on its strategic objectives. The Company has remained focussed on selling properties that do not have strong letting demand and that are not capable of rental growth over the long term. Our strategic sales programme to dispose of non-sustainable properties complemented the strengthening of our balance sheet. Sales proceeds have been used to reduce gearing and to invest in our buildings.

Tenant centricity remains our core focus and the bolstered team is working hard to retain and build relationships with existing tenants.

Arrowhead achieved a level 4 B-BBEE rating during the period. Our social initiative launched in 2020, remains committed to supporting the less fortunate communities in and around our portfolio.

Arrowhead continues to aggressively roll out solar installations throughout the portfolio. Solar generation capacity is now approximately 5 megawatts and once all planned projects are complete, we expect generation capacity to be about 10 megawatts by the end of 2021. Our improved ESG disclosure in our integrated annual report for the year ended 30 September 2020, highlighted Arrowhead's progress and focus on ESG and it is committed to continue building these strategic areas of the business.

Balance sheet management

The continued strengthening of the Company's balance sheet, through the sale of selected assets and the reduction of debt remains a key focus of the Company.

Update on sales

In the year end results, we reported overall sales of just under R900 million expected in the 2021 financial year. 20 properties worth R500 million have transferred in the period with another R400 million to transfer during the remainder of the year.

In November 2020, we communicated our intention to target another R500 million worth of sales in the current year. The sales market has continued to deteriorate, and it is becoming increasingly difficult to achieve sales. New sales are being concluded at wider discounts to book value given the limited pool of buyers and over supply of assets. Despite this, Arrowhead has been able to conclude a further R300 million in sales at an average yield of 10.2% and a 6.9% discount to book value. These sales are still under due diligence.

If all of the concluded transactions proceed, total sales will increase to in excess of R1,2 billion, at a combined 11.1% forward yield and an overall discount to book value of just over 2%.

As part of the ongoing simplification of our business, in 2020 we sold 20 million Rebosis Property Fund Limited (“**Rebosis**”) shares. In the current year, we have sold a further 95 million Rebosis shares for a value of R19 million and have just under 10 million shares remaining, which shares we have contracted to sell before the end of March 2021.

Loan facilities

Arrowhead has no other loan facilities that expire in the 2021 financial year other than a R200 million facility expiring in July 2021 which will be re-paid. The Company’s loan to value (“**LTV**”) ratio remains well within current covenants and this will improve further as a result of the sales program. For the interim period under review, the group’s interest cover ratio (“**ICR**”) covenants were breached as third-party financiers calculate the ICR on a 12-month period, which included the impact of COVID relief and the dilutionary impact of our sales program given the low interest rate environment. If the COVID relief is excluded from the calculation, the ICR covenants would not be breached.

It is anticipated that as at 30 September 2021, being the Company’s financial year-end, this breach will be remedied as the measurement period would exclude the level 5 hard lockdown period.

The Company is in discussions with one of its primary financiers to decrease the ICR covenant applicable to Arrowhead’s facilities from 2.5x to 2x, in line with Arrowhead’s other the funders and to relax the group LTV covenant to not less than 50% in recognition of Arrowhead’s success in de-risking its balance sheet. The Company will be in a position to report on the conclusion of these discussions at the time of release of its interim results.

Operational update

Arrowhead continues to invest in its capital expenditure program as this is essential to protecting future revenue, with R75 million invested in the year to date.

Collections

Our internal property management team together with JHI continue to navigate a very tough environment. The Arrowhead portfolio is a management intensive portfolio spread across the country and various sectors, with exposure to all grades of tenants. Arrowhead has approximately 1 900 tenants. 229 leases expired during the period and another 315 leases are due to expire before the end of the financial year. Despite the difficult economic environment and the pressure on rentals, the portfolio is performing in line with expectations.

Arrowhead has provided rental relief (in the form of either rental discounts or deferrals) to assist tenants whose operations have been impacted by the COVID-19 pandemic and the national lockdown. As at 28 February 2021, rental relief of just over R4,5 million was provided, comprising rental discounts of approximately R4 million and deferrals of approximately R0,5 million. As previously advised, rental relief has reduced significantly since September 2020, however engagement with tenants is ongoing, and the Company may be required to provide additional rental relief in respect of COVID-19 related arrears, to tenants that are otherwise in good standing.

Collection levels, as a percentage of contractual rental, before rental relief and ignoring the appropriation of deposits, have continued to improve since the previous update:

	October 2020	November 2020	December 2020	January 2021	February 2021
Current update:	93%	93%	97%	97%	96%

This positive trend continues during March 2021.

Vacancies and letting activity

As previously detailed, the headwinds facing the South African rental market earlier this year have worsened significantly as a result of the pandemic, and we expect to see continued pressure on rental levels and vacancies, as well as increased costs of retaining and attracting tenants.

Vacancies have increased to 11.3 % in 2021 (retail 7.5 %, office 19.5% and industrial 7.9 %), as is to be expected in the current economic climate. The most affected has been office. Notwithstanding, it is pleasing that we have been able to conclude approximately 20 000 m² of office deals which will assist in defending income in this asset class.

During the period, rental reversions were approximately -11% overall, with retail at - 7.7%, office -14.4% and industrial -9.2 %. In the first 5 months of the financial year, gross lettable area (“GLA”) of 125 275 m² came up for renewal, of which approximately 97 867 m² was retained and a further 8 730 m² re-let. In aggregate, overall retention was 85 % of the GLA.

Arrowhead will release its interim results on 26 May 2021.

23 March 2021

Sponsor

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